

# ORIENTAL BANK OF COMMERCE

SCHEDULES FORMING PART OF ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2008

## SCHEDULE -17

### SIGNIFICANT ACCOUNTING POLICIES

#### 1) GENERAL

- a) The financial statements are prepared on historical cost convention and as a going concern and conform to the statutory provisions and practices prevailing in the country except otherwise stated.
- b) Revenue and expenses have generally been accounted for on accrual basis. However, commission received / paid, locker rent, legal expenses for suit filed accounts and recoveries there against, income on non-performing assets, dividend on investments, interest on overdue bills and on tax refunds are accounted for on cash basis.
- c) Interest on overdue deposits is accounted for at the time of renewal.

#### 2) FOREIGN EXCHANGE TRANSACTIONS

- a) Monetary assets and liabilities are revalued at exchange rates advised by Foreign Exchange Dealers Association of India (FEDAI) at the close of the financial year and the resultant gain/loss is taken to revenue.
- b) Income and expenditure items are accounted for at the exchange rates prevailing on the date of the transaction.
- c) Forward exchange contracts & bills are translated at the exchange rates prevailing on the date of commitment. Outstanding foreign exchange contracts and bills are revalued as per FEDAI rates and the resultant gain/loss is taken to revenue.
- d) Foreign currency guarantees, acceptances, endorsements and other obligations are stated at FEDAI rates as at the close of the financial year.

#### 3) INVESTMENTS

- a) Classification:-

In accordance with RBI guidelines, investments are classified into three categories.

- i) Held to Maturity (Investments intended to be held till maturity)
- ii) Held for Trading (Investments held for sale within 90 days from the date of acquisition )
- iii) Available for Sale: (Investments not classified in (i) and (ii), above.)

However, for disclosure in the Balance Sheet, Investments are classified under the following heads. (a) Government Securities (b) Other Approved Securities (c) Shares (d) Debentures and Bonds (e) Subsidiaries / Joint Ventures and (f) Others.

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### b) Valuation:

#### Held to Maturity: -

1. Investments under “Held to Maturity“ category are carried at acquisition cost. Wherever the book value is higher than the face value / redemption value , the premium is amortized over the remaining period of maturity.
2. Investments in joint venture are valued at carrying cost .less diminution ,in value,if any, other than temporary in nature.
3. Investment in venture capital is valued at carrying cost.

#### Available for Sale and Held for Trading

1.	Government of India Securities	At market prices as per quotations published by Exchange Dealers Association of India (FIMMDA ).
2.	State Development Loans / Other Approved Securities	At appropriate yield to maturity basis as per FIMMDA guidelines.
3.	Treasury Bills and Commercial Papers	At carrying cost.
4.	Equity Shares	(i) Quoted: At market price. (ii) Unquoted: At break up value, where latest balance sheet is available (not more than one year old), otherwise at Re. 1/- per company.
5.	Preference Shares	(i) Quoted: At market price. (ii) Unquoted: On appropriate yield to maturity.
6.	Debentures / Bonds	(i) Quoted: At market price. (ii) Unquoted: At appropriate yield to maturity based on rating assigned by Rating Agencies.
7.	Units of Mutual Funds	(i) Quoted: At market price. (ii) Unquoted: At repurchase price/ Net Asset Value.
8.	IVPs	At acquisition cost.
9.	Security receipts of ARCIL	At net asset value of the asset as declared by ARCIL.

The above valuation in category of Available for Sale and Held for Trading are done scrip wise and depreciation / appreciation is aggregated for each classification. Net depreciation for each classification if any is provided for while net appreciation is ignored

- c) Transfer of securities from one category to another is accounted for at the least of acquisition cost / book value / market value on the date of transfer. The Depreciation, if any, on such transfer is fully provided for.

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d) Others:

- i) Brokerage/commission received on subscription is deducted from Cost of acquisition.
- ii) Broken period interest paid / received on purchase /sale of securities is recognised as interest expense / income. .
- iii) Prudential norms of RBI for non performing investment Classification are applied to Investments and appropriate provisioning in respect of non performing securities is made.
- iv) Profit on sale of Securities under 'Held to Maturity' category Securities is transferred to Capital Reserve Account.

#### **4) ADVANCES / PROVISIONS / RECOVERIES**

- I.) Classification of Advances into performing / non-performing assets and provisions thereon are made as per the Prudential Norms Prescribed by the Reserve Bank of India.
- II) Advances are net of provisions made for non-performing Assets..
- III.) Provision for performing Assets is shown under the head "Other Liabilities & Provisions".
- IV.) Recoveries in Non-Performing Assets are appropriated first towards principal and thereafter towards interest

#### **5) FIXED ASSETS / DEPRECIATION**

- a) Fixed Assets are stated at historical cost less accumulated depreciation.
- b) Premises include cost of land. In certain properties, where the value of land cannot be segregated, depreciation is charged on the composite amount.
- c) Fixtures and fittings in rented premises are treated as Temporary Erection.
- d) Depreciation on Fixed Assets, including the properties mentioned in (b) above, is provided on written down value method at the rates prescribed in the Income-tax Rules 1962, except in respect of computers, on which depreciation is provided on straight line method @ 33.33% p.a as per RBI guidelines..

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- e) Software expenditure incurred is charged to revenue.

### 6) LEASE TRANSACTIONS

- a) (i) Accounting for assets given under financial lease before April 1, 2001, has been done as per the Guidance Note issued by the Institute of Chartered Accountants of India. Such assets are included under Other Fixed Assets and depreciation thereon is provided equally over the lease period.
  - ii) In accordance with prudential norms issued by RBI, finance leases are classified as performing and non-performing and accordingly provisions are made.
- b) Assets taken under financial lease are recognized at the lower of the fair value of the leased assets and the present value of the minimum lease payments and included under Other Fixed Assets.

The lease payments are apportioned between finance charge and the outstanding liability so as to account for the finance charge at the constant periodic rate of interest over the lease period.

- c) Lease other than financial lease is classified as operating lease.
- d) Lease rental and depreciation are accounted for as per Accounting Standard (AS-19) issued by the Institute of Chartered Accountants of India.

### 7) STAFF RETIREMENT BENEFITS

- a) The liability for gratuity and pension benefits to staff is accounted for on accrual basis as per actuarial valuation at the year end and paid to the approved Trusts of the Bank.
- b) Provision for Leave Encashment and other defined employee benefits is made on the basis of actuarial valuation at the year end.

### 8) INCOME TAX

1. Provision for Tax is made for both current and deferred taxes.
2. Current tax is provided on the taxable income using applicable tax rates and tax laws.
3. Deferred Tax Assets and Liabilities arising on account of timing differences and which are capable of reversal in subsequent periods are recognized using the tax rates and the tax laws that have been enacted or substantively enacted till the date of the Balance Sheet.
4. Deferred Tax Assets are not recognized unless there is 'virtual certainty' that sufficient future taxable income will be available against which such deferred tax assets will be realized.

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## **9) NET PROFIT**

The Net Profit is arrived at after accounting for the following “Provisions and Contingencies”:

- a) Provision for taxes on income and wealth tax in accordance with statutory requirements.
- b) Provision on Standard Assets .
- c) Provision for Non Performing Advances & depreciation on Investments.
- d) Bad debts written off.
- e) Other usual and necessary provisions.